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Japan's Balance Of Payments Rises Sharply

A Japanese official who just has had a glance at his country's latest current account statistics might not buy the American conventional wisdom that every cloud has a silver lining. The figures for the January-March 1992 period were close to an unmitigated disaster given the official Japanese assumption that tranquil trade relations with major trading partners require a substantial and continuous reduction in Japan's huge current account surplus. That imbalance jumped 167.5 percent in this year's first quarter from the same period of 1991, hitting $27.4 billion (see Table 1). The news was equally dreary from the same perspective for FY 1991, which ended with the January-March quarter. Japan's current account surplus equaled $90 billion for the fiscal year as a whole. By comparison, the government's December 1990 economic outlook put the FY 1991 current account surplus at $30 billion, a number that was upped to $72.5 billion last December.

The first quarter's black ink was not quite as bad as it appeared. The big year-to-year change in the current account figure resulted in part from a large Japanese contribution last year to the multilateral forces that defeated Iraq in the Persian Gulf War. However, even without the $8.4 billion drop in net outbound transfers that reflected this fact, the current account still would have climbed 84.5 percent.

Economists offer assurances that current account surpluses by definition carry a silver lining in the form of outbound capital flows that ease interest rates in the rest of the world. The excess of receipts from sales abroad of goods and services and inbound unilateral transfers over expenditures for the same transactions (the current account) represents, in effect, funds that Japanese investors have lent to foreigners or invested overseas. For this reason the net capital flow always is equal to the current account. However, the hypothetical official described above would have difficulty finding this

Table 1: **Japan's Balance of Payments**

(in millions of dollars)

		Trade Balance	Exports (f.o.b.)	Imports (f.o.b.)	Services (net)	Current Account Balance	Long-Term Capital (net)
1987		$96,386	$224,605	$128,219	$-5,702	$87,015	$-136,532
1988		95,012	259,765	164,753	-11,263	79,631	-130,930
1989		76,917	269,570	192,653	-15,526	57,157	-89,246
1990		63,528	280,374	216,846	-22,292	35,761	-43,586
1991		103,044	306,557	203,513	-17,660	72,901	37,057
1989:	I	21,311	66,945	45,634	-3,595	16,064	-5,612
	II	19,794	66,560	46,766	-4,892	14,283	-30,801
	III	19,770	68,157	48,387	-4,023	14,957	-21,559
	IV	16,042	67,908	51,866	-3,016	11,853	-31,274
1990:	I	14,393	65,460	51,067	-701	12,305	-16,086
	II	13,614	65,510	51,896	-5,279	7,892	-18,985
	III	17,149	70,500	53,351	-8,045	7,400	-7,247
	IV	18,372	78,904	60,532	-8,267	8,164	-1,268
1991:	I	20,729	74,978	54,249	-920	10,260	10,707
	II	23,352	71,990	48,638	-4,064	18,664	-7,103
	III	27,745	76,934	49,189	-6,735	19,604	30,843
	IV	31,218	82,655	51,437	-5,941	24,373	2,610
1992:	1 (p)	31,127	80,213	49,086	-2,498	27,443	14,077

solace in the latest statistics. Japan experienced a $14.1 billion net long-term capital inflow during 1992's first quarter, up from $10.7 billion the year before. A net capital inflow of any size in connection with Japan's current account surplus, let alone one that appears to grow along with the imbalance, would appear to make liars of economists.

Such a conclusion would be too hasty. Although well-hidden, a capital-outflow silver lining can be found in the detailed statistics. Where it cannot be found is among the data on securities transactions shown in Table 2. In the January-March period net Japanese purchases of foreign bonds declined 69.9 percent to $4 billion. In addition, Japanese investors reduced their relatively small holdings of foreign equities by $4 billion, thereby reversing in one quarter 1991's entire net stock purchases. Consequently, $1.4 billion in yen-denominated bonds was the margin by which Japanese investors were net purchasers of foreign securities in the January-March period. This relatively small outflow was overwhelmed, however, by $14.2 billion in foreign purchases of Japanese stocks, bonds and external bonds issued by Japanese companies outside the country. That led to a $12.7 billion net capital inflow into Japan involving securities transactions.

As in other recent quarters, capital flows other than those involving securities explained the apparent discrepancy between Japan's large — and growing — current account surplus and capital flows. (For a discussion of this phenomenon in the context of the 1991 current account statistics, see *JEI Report* No. 7B, February 21, 1992.) As they have in every quarter since October-December 1990, large Japanese banks reduced their outstanding net foreign borrowing in the first three months of this year, an action that is arithmetically equivalent to a capital outflow. In the January-March time frame

Table 2: **Japan's Net International Long-Term Securities Transactions**

(in millions of dollars)

		Net Japanese Purchases			Net Foreign Purchases			Net
		Bonds	Stocks	Other*	Bonds	Stocks	Other**	Outflow
1987		$-72,885	$-16,874	$2,002	$6,675	$-42,835	$30,079	$-93,838
1988		-85,812	-2,993	1,856	-21,628	6,810	35,116	-66,651
1989		-94,083	-17,887	-1,208	2,400	6,998	75,746	-28,034
1990		-28,961	-6,256	-4,464	16,991	-13,276	30,938	-5,028
1991		-68,202	-3,630	-2,474	21,241	46,779	47,264	40,978
1989:	I	-14,003	104	577	-1,646	9,004	16,212	10,248
	II	-25,091	-6,108	-776	-587	-6,196	27,501	-11,257
	III	-25,871	-4,795	722	5,403	757	14,123	-9,661
	IV	-29,118	-7,088	-1,731	-770	3,433	17,910	-17,364
1990:	I	-869	-4,946	717	6,182	-11,713	8,246	-2,383
	II	-9,353	-2,153	-954	4,975	838	723	-5,924
	III	-10,905	-459	-2,405	4,790	-3,380	10,485	-1,874
	IV	-7,834	1,302	-1,822	1,044	979	11,484	5,153
1991:	I	-13,356	463	-1,348	1,418	17,486	9,129	13,792
	II	-22,423	-2,840	-1,353	6,348	4,140	11,778	-4,350
	III	-11,120	-134	-94	9,508	15,245	13,317	26,722
	IV	-21,303	-1,119	321	3,967	9,908	13,040	4,814
1992:	I (p)	-4,021	3,975	-1,443	3,542	7,461	3,145	12,659

*Yen-denominated bonds issued in Japan.
**Bonds issued outside of Japan by Japanese institutions.

Note: For outflows a minus sign indicates an increase in assets abroad. For inflows a positive value indicates an increase in Japanese liabilities to foreigners.

net liabilities fell $43.8 billion, a movement large enough to cover both the current account surplus and the capital inflow. On March 31 net liabilities were down 51.6 percent from their year-earlier level.

Together, the increase in the current account, the drop in overseas securities purchases, the large inflow of foreign funds to purchase securities and the continuing reduction in Japanese banks' overseas liabilities form a consistent pattern — one that reflects the stormy weather the Japanese economy faces. During this year's first quarter industrial production slumped, leading to smaller imports and the larger current account surplus. Partly as a result of weak economic indicators, Japanese analysts became much more pessimistic concerning Japan's economy in 1992. That outlook shared some of the responsibility for the renewed downward pressure on Tokyo Stock Exchange share prices. The low equity prices attracted foreign buyers, but weakened the position of Japanese investors, particularly financial institutions, forcing some curtailment not only of foreign securities purchases but overseas bank borrowing as well.

A recent Organization for Economic Cooperation and Development forecast suggested that the storm clouds hovering over Japan's economy are unlikely to lift in the near term. The economy is expected to grow 1.8 percent in real terms in calendar 1992, matching exactly the 24-nation OECD average. This performance, while as good as that of most other major industrial countries, would be

the worst for Japan since the first oil shock in 1974. Despite the recent torrent of bad economic news coming out of Japan, growth as low as the OECD predicted may not be fully anticipated by Japanese investors influenced by the more optimistic forecasts of domestic analysts. Japanese investors could become even more cautious if economic developments continue to point toward the correctness of the OECD forecast. That anticipated hesitancy suggests that inbound and outbound capital flows will maintain recent patterns until the bad news either is fully assimilated or is offset by evidence of an economic upturn — an event many experts believe could come later this year.

If the OECD is right and Japan and its industrial-nation trading partners grow at roughly the same rate in 1992, imports are likely to expand at roughly the same pace as exports. Perhaps for this reason, OECD analysts projected a relatively moderate increase in Japan's current account surplus this year to $92.4 billion from $72.9 billion. That figure would set a record on a dollar-denominated basis. However, by the time Japan's full-year current account statistics are released next February, the hypothetical official described at the beginning probably will be able to find a silver lining in signs of an economic turnaround leading to higher imports, a smaller surplus and increased investor confidence.

Douglas Ostrom

Quayle's Visit Steadies Relations

Vice President Dan Quayle flew to Japan May 12 primarily to take part in ceremonies commemorating the 20th anniversary of the reversion of Okinawa to Japanese rule. But his trip also had another purpose: to steady a bilateral relationship that has been strained recently. Focusing on shared values and goals, Mr. Quayle reiterated to his hosts and to the world that Japan and the United States remain strong allies and partners. The vice president's trip yielded concrete benefits in the form of a bilateral technology-sharing initiative and a Japanese commitment to contribute to the economic reconstruction of Eastern Europe. All was not sweetness and light, however. According to press reports, Mr. Quayle discussed several contentious issues with his hosts behind closed doors.

In sharp and intentional contrast to President Bush's January visit to Japan (see *JEI Report* No. 2B, January 17, 1992), the vice president hoped to "emphasize the positive" and "underscore the importance" of the bilateral relationship. Conversely, he wanted to avoid "public bickering" and "haranguing" Japan on issues of disagreement. Mr. Quayle did promise, however, that he would be direct and candid on these issues in private talks. His four-day itinerary included talks with Prime Minister Kiichi Miyazawa, cabinet ministers, leaders of the ruling Liberal Democratic Party and top business executives. It culminated in the May 15 Okinawa reversion celebration.

Prime Minister Miyazawa thanked the vice president and the Bush administration for resisting protectionist elements in the United States and for "bashing the Japan-bashers and revising the revisionists," according to the Ministry of Foreign Affairs. Instead of concentrating on divisive trade issues, the two government leaders discussed a broad range of global issues on which bilateral cooperation could have a positive impact, such as environmental problems. Mr. Miyazawa and Mr. Quayle agreed that the successful conclusion of the Uruguay Round of multilateral trade negotiations was a top priority for both Tokyo and Washington. The vice president pledged that the United States would remain engaged in Asia and would continue to station American forces in Japan as long as they were welcomed.

The first concrete results of the vice president's trip were announced May 14 when he and Minister of International Trade and Industry Kozo Watanabe inked an accord to promote the transfer of manufacturing technologies from Japan to the United States. The Manufacturing Technology Initiative will open the doors of Japanese plants to as many as 200 American engineers and supervisors a year to give them a first-hand look at Japan's manufacturing know-how. While all the details have

House Republicans also have complained that Democratic leaders introduced the trade package without consulting adequately with them. Some observers doubt that the bill's proponents will succeed in securing sufficient Republican support to override an anticipated presidential veto. For the time being Senate Democratic trade leaders appear satisfied to let their House counterparts wrestle with the trade initiative. That chamber is not expected to introduce its version of a comprehensive trade bill until the House has completed work on HR 5100.

Margo Grimm

Commerce Issues Dumping Finding On Minivans

A year ago the Big Three automotive makers took their best shot at what they long have viewed as pervasive unfair U.S. pricing of made-in-Japan cars and light trucks, formally charging Japanese manufacturers with selling minivans here at prices substantially below those charged at home (see *JEI Report* No. 23B, June 21, 1991). Chrysler Corp., Ford Motor Co. and General Motors Corp. hit their mark, but the political and public relations score was not as high as they had expected. On May 19 the Department of Commerce announced that Toyota Motor Corp. had underpriced its Previa minivan to American distributors and dealers by an average of 6.75 percent between December 1, 1990 and May 31, 1991 — the day the U.S. industry filed its antidumping petition, while Mazda Motor Corp. had sold its minivan entry, the MPV, at prices averaging 12.7 percent less than fair-market value during the October 1990-May 1991 period.

These final dumping margins admittedly are bigger than the preliminary ones calculated late last year (0.95 percent for Toyota and 7.19 percent for Mazda). Nonetheless, the pricing discrepancy on the Previa barely falls within the "conservative" dumping range of 5.4 percent to 30.5 percent estimated by Detroit and the difference on the MPV is smaller than the predicted 14.8 percent minimum gap. The relatively limited size of the dumping margins is all the more notable given the fact that Commerce investigators based Toyota and Mazda home market prices on constructed value. This methodology, used because almost all minivan sales in Japan by both companies occurred at prices lower than production costs, adds 8 percent of combined manufacturing costs and general expenses as profit if actual profits are less than this statutory amount.

Ignoring the comparatively narrow dumping margins found, U.S. motor vehicle industry representatives and automotive-state legislators on Capitol Hill hailed the Commerce ruling as a vindication of their belief that Japanese car and light truck manufacturers have used predatory pricing to make deep inroads in the American market. The Big Three drew particular satisfaction from the results of Commerce's in-depth look at the pricing practices employed by component suppliers owned wholly or in part by Toyota. This examination revealed that the automaker systematically pays less for parts manufactured by affiliated companies than an unrelated customer does and, moreover, that Toyota routinely is able to negotiate a better deal with its related suppliers for Previa parts than for components going into the Estima, the Japanese version of the Toyota minivan. U.S. industry executives have complained for years that Japanese automakers unfairly cut the costs of producing vehicles for export by forcing parts suppliers that belong to the same industrial grouping or *keiretsu* to give them substantial price breaks.

Commerce's ruling and the unfair trader label it pinned on Toyota and Mazda angered executives of the two companies. Still, they hope to avoid penalty tariffs on the Previa and the MPV as well as the pricing unknowns and administrative headaches that accompany an antidumping-duty order by convincing the International Trade Commission that the pricing of Japanese-made minivans has not hurt Detroit. A wide range of objective factors would seem to favor the Japanese competitors. Most notably perhaps, Chrysler, Ford and GM recently have regained part of the ground they lost after Mazda and Toyota entered the U.S. minivan market in 1989, upping their combined share of the expanding market to 91.6 percent in the first four months of this year from 1991's low of 88 percent (see Table).

U.S. Sales of Minivans, 1988-92

(in units)

	1988	1989	1990	1991	Four Months 1991	Four Months 1992
Plymouth Voyager	192,273	184,943	171,527	173,373	53,300	62,934
Dodge Caravan	210,918	206,426	195,276	207,919	65,625	78,253
Dodge Caravan C/V	19,222	13,150	10,680	8,591	3,573	2,725
Chrysler Town & Country	0	1,812	2,891	5,236	1,235	3,967
Ford Aerostar	184,578	188,130	177,860	147,373	44,387	52,850
Chevrolet Astro	156,833	143,941	121,168	105,808	33,998	36,539
Chevrolet Lumina APV	0	9,776	63,141	48,117	13,750	15,562
Pontiac Trans Sport	0	3,226	29,875	23,682	6,556	9,927
Oldsmobile Silhouette	0	2,122	26,075	19,003	5,126	5,553
GMC Safari	33,168	31,681	34,300	33,600	9,652	12,289
American Nameplates	796,992	785,207	832,793	772,702	237,202	280,599
Mazda MPV	n.a.	32,277	43,147	48,144	15,072	10,284
Mitsubishi Van	n.a.	910	739	59	51	2
Nissan Axxess and Van	n.a.	13,185	7,877	340	250	0
Toyota Previa and Van	n.a.	10,075	42,431	52,099	16,809	14,928
Japanese Nameplates	n.a.	56,447	94,194	100,642	32,182	25,214
VW Vanogan	n.a.	5,147	6,643	5,035	1,660	444
Total Sales	818,741	846,801	933,630	878,379	271,044	306,257
American Market Share	97.3%	92.7%	89.2%	88.0%	87.5%	91.6%
Japanese Market Share	n.a.	6.7%	10.1%	11.5%	11.9%	8.2%

Source: *Automotive News*

Although recent sales, market share patterns, profitability and other economic indicators make a seemingly strong case for a negative injury finding, the ITC's decision — due by early July — is a hard call. For one thing, three of the six commissioners are relative newcomers with skimpy voting records on antidumping proceedings. Moreover, the minivan case is on the cutting edge of the most politicized issue in U.S.-Japan relations, automotive trade and the big inroads Japan's car and light truck manufacturers have made in the American market compared with the marginal share of the Japanese market captured by U.S. motor vehicle makers (see preceding article). That could tilt the ITC decision toward injury or, more likely, the possibility of future damage to the Big Three.

A number of industry analysts speculate that if Chrysler, Ford and GM do win an affirmative ITC determination they will file an unfair pricing complaint against Japanese-made luxury cars — a candidate for Detroit's first-ever antidumping petition before losing out to minivans — or other imported vehicles. That scenario might not materialize simply because the U.S. industry already has achieved a big part of what it was trying to accomplish by going the trade-complaint route: getting Japanese automotive makers to raise their U.S. car and light truck prices again to give the Big Three more maneuvering room. Toyota and Mazda have implemented significant price increases on their minivans over the last year, with the entry-level Previa now 19.2 percent more expensive and the lowest-priced MPV up 10.7 percent. Both of these companies as well as Honda Motor Co., Ltd. and

Nissan Motor Co., Ltd. also have boosted the sticker prices on their cars by as much as $1,000-plus on a sales-weighted basis since the start of the 1992 model year. Those markups, plus the recent cut in the quota on U.S.-bound car exports (see *JEI Report* No. 12B, March 27, 1992) and the 25 percent import duty on many Japanese-made light trucks, should rein in U.S. sales of Japanese-badged vehicles even in an expanding market.

Susan MacKnight

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

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